The MORTGAGE BANKER

VOLUME I—No. 6 MBA MORTGAGE BANKERS ASSOCIATION OF AMERICA ORGANIZED 1914 MARCH 15, 1939

THE HOUSE THAT'S OUT OF REACH

The Key to Real Building Prosperity Rests in Giving the Masses a House They Can Afford, These Figures Say

Probably no greater economic paradox exists in the United States today than the question of why so many people do not build homes of their own when they obviously can afford to do so. The most common answer is that "they feel the uncertainties of the moment" and refuse to embark upon home ownership during such troubled times. That answer is probably largely correct, but hardly all of the story.

A much more important question is: *Can those comprising the greatest mass market for new homes afford to buy them at present costs?* The answer here seems definitely no; and in this field some interesting and highly illuminating data has been collected to indicate that the house that is offered today is within the reach of only a limited number of United States citizens. And the reason it isn't? High building costs apparently must bear the biggest part of the blame. (It is interesting to record here that in 1938, figures just published show, the average cost of a standard 6-room frame house declined 2.8 per cent—but the reason was lowered cost of materials rather than any labor cost drop. The cost of one-family homes in the United States in 1938 dropped an average of $350, government figures reveal.)

It is contended that only *one out of every three urban American families* can afford to own the type of house that is being built today. If that's true, it deserves the studied consideration of every city mortgage lender. Every MBA member ought to ask himself why and seek the answer—because he will eventually have to help in solving such a vital unbalance in the mortgage economy.

Not long ago the National Resources Committee was front page news with a voluminous report on "Consumers Income in the United States." Some of it was carried in this publication's predecessor, the old *MBA News Review*. As a fact-finding effort it was undoubtedly one of the best projects undertaken in years; and from this mass of figures, the *FHLB Review* has built a case on the thesis that if we want to see some real substantial residential building in this country we had better get down off our high-building-cost-horse and settle on a house costing $4,000 or less. In the publication's opinion:

If it is true, as the data in this article seems to indicate, that far too few families can afford the type of house offered to them today, then where shall the blame be placed? And what is the solution—lowered materials and labor costs? Or shall we have to wait around until we achieve that 80 billion national income of which the country has heard so much in recent weeks? Whatever the answer, the figures can be studied by mortgage lenders and investors with the thought that something does seem to be out-of-balance.

The most salient problem now faced by home-financing agencies, the building trades, material dealers, and Federal agencies interested in housing is the provision of a comfortable but low-cost home to sell for $4,000 or less for the great mass of American families whose incomes will not justify a larger investment.

FHLB Chairman John H. Fahey declares: "While I am aware that progress has been made in better planning, it cannot be claimed that we have yet found the way to provide for $4,000 and less the kind of home the American family of moderate means is entitled to have. The market for such homes is enormous, and the sooner we begin to meet the demand, the better it will be for the business of the entire country."

The National Resources Committee's report has provided a picture of unusual clarity of the American family's income. From this it can readily be seen that the housing industry, as it exists today, is building homes priced far too high for the average family. Costs must be reduced sharply if this great potential market is to be tapped.

The survey, covering the period from July 1935, through June 1936, showed the distribution of that year's national income of $60,000,000,000 among America's 128,000,000 consumers. To determine how the lump sum of $60,000,000,000 was divided, sample income data of 300,000 families apportioned among cities, villages, farms, and representative of 30 different states, were studied minutely.

It was found that America's 29,500,000 families of two or more persons, made up of 116,000,000 individuals, included 91 per cent of the total body of consumers and hence is the market toward which all major merchandising ef-

forts should be directed. America's families of two or more persons received four-fifths of the total national income in that year. The remaining $12,000,000,000 was distributed among the 10,000,000 single individuals and 2,000,000 institutional residents, comprising 9 per cent of America's consumer units.

In this discussion we are primarily interested in conditions in urban areas. If we exclude rural families and all families which received relief at any time during the year, there were 14,000,000 urban nonrelief families. From this study these facts stand out:

1. *These urban families received two-thirds of the national income distributed to all nonrelief families, urban and rural, in the country.*

2. *The income of the typical urban American family for the 1935-1936 year was $1,475, or slightly less than $125 per month. Half of these families received less than $1,475, and one-half more than that amount.*

3. *Income within this great family group is far from evenly distributed. Had it been apportioned equally among all, the typical family's income would have been raised from $1,475 to $2,064—from $125 to $170 per month.*

4. *It is evident that 70 per cent of America's urban families received less than $2,000, since one-half of all urban families of two or more persons received incomes of less than $1,500, and an additional 20 per cent received incomes between $1,500 and $2,000.*

These figures offer a partial key to the housing problem.

It is generally calculated by rule of thumb that a family is justified in investing in a home not more than two and a half times its annual income. On this basis, one-half of all these urban families could not purchase houses costing more than $3,750. Only one family out of every three could afford a house costing more than $5,000.

QUESTION

There are about 9,500,000 wage earning families in the U. S. today and their annual income runs from $1500 in cities to $950 in rural communities. Can they afford the type of house offered them today—regardless of how easy financing may be?

The National Housing Committee, which is a private research organization and interested in the problems of low-cost housing, found that between 1930 and 1935 more than half of our residential building was concentrated in the construction of houses costing $5,000 and more. We were building mainly for one family out of three and we were excluding two-thirds of our potential consumers of houses from the market.

Comparisons of the incomes of the 14,000,000 urban nonrelief families show wide variations between different types of communities. *Incomes of typical families tended to be larger in large cities and metropolises, as Table 1 shows.*

Even more pronounced differences in family incomes are found if each family is classified according to the occupation from which the largest part of the family's earnings came. In our cities, one out of every two families receives the bulk of its income from wages. Nonrelief wage-earning families totaled 9,500,000, by far the largest number of families in any occupational group. The typical wage-earning family, however, received a lower income than the typical family in any other occupational group in our cities.

The mortgage lender and the builder are particularly interested in the analysis of the income of the wage-earning families, making up the backbone of our cities' population. It is this wage-earning group which constitutes a vast untapped portion of the housing market. Earlier studies have shown that urban wage-earning families are more strongly inclined to home ownership at any given income level than any other occupational group.

There are nearly 9,500,000 wage-earning families in the country, if we include the 2,000,000 families which live in rural communities (in communities with population under 2,500 or in the open country, but not on farms). *Table 2 shows the distribution of these wage-earning families in different types of community.*

The typical wage-earning family's income ranges from $1,500 in a metropolis to $1,150 in the smaller cities and drops further to $950 in rural communities (Table 2). It is apparent that the middle families of these wage-earning groups, no matter how strongly they are inclined to own their homes, cannot purchase houses that cost more than $2,900 in the small and middle-sized cities or more than $3,750 in the metropolises. Typical wage-earning families in rural communities need houses priced at a maximum of $2,375.

It is true, of course, that a higher ratio of home ownership among wage-earning families is to be expected in the small communities which are satellites of larger cities than in communities of the same size which are independent of larger urban areas. In the more highly urbanized areas a wage earner can count on various

(Continued Page 8, Column 3)

***Table 1.*—Median Incomes of Urban Nonrelief Families, 1935-1936**

Type of community	Median income per family
Metropolises:	
1,500,000 population and over	$1,730
Large cities:	
100,000 to 1,500,000 population	1,560
Middle-sized cities:	
25,000 to 100,000 population	1,360
Small cities:	
2,500 to 25,000 population	1,290
All urban communities	$1,475

***Table 2.*—Incomes of Wage-Earning Families, 1935-1936**

Type of community	Number of wage-earning families	Median income per family
Metropolises:		
1,500,000 population and over	1,368,500	$1,500
Large cities:		
100,000 to 1,500,000 population	2,155,100	1,300
Middle-sized cities:		
25,000 to 100,000 population	1,409,600	1,165
Small cities:		
2,500 to 25,000 population	2,305,800	1,150
Rural communities	2,220,300	950
All communities	9,459,300	$1,175

(Source: National Resources Committee)

WHAT MBA THINKS OF FHA

Our Recent Survey Indicates That MBA Members Are Actively Participating in FHA Financing

By GEORGE H. PATTERSON

How does MBA stand on FHA today? Are most of our members making FHA loans? Have their FHA loans worked out and are they receiving satisfactory service from FHA divisional offices? These are questions we recently put to MBA members in a questionnaire.

Our members are very actively making FHA loans — less than one-fourth of those replying to the questionnaire are not handling insured mortgages. These replies number 246 from 88 cities and 39 states. The number of those not making FHA loans would probably be higher if we had complete results from all members because of the fact that many of those who did not reply are our large institutional members.

One hundred and sixty-eight of our members will make FHA loans in 1939 and only 56 will not — these figures, of course, are based upon those who answered the questionnaire. The specific question was: *Will you make FHA loans in 1939?* And the answers were as follows:

	Yes	No
MIDDLE WESTERN	95	32
FAR WESTERN & MT.	20	9
SOUTHERN	27	10
EASTERN	26	5
	168	56

So it would appear that members of the Mortgage Bankers Association of America are participating in the FHA insured mortgage financing in an important way.

Our next question sought to find out: *Are you getting satisfactory service from your local FHA office?* The answer here was decidedly yes. Only 5% of all members indicated that they were not getting satisfactory service. There were a great many who indicated that local FHA service was satisfactory "but slow." This was a persistent phrase running through the answers in the questionnaires — "Service is satisfactory but slow." In no single instance in the eastern states was there a complaint about service and only one from the Far Western and Mountain states. Such complaints as were shown in the questionnaire came from the South and Middle West, from communities such as Granite City, Illinois; Council Bluffs, Iowa; Oklahoma City, Tulsa, Atlanta, New Orleans; Greenville, South Carolina; Amarillo, Texas. The actual tabulated results were as follows:

	Yes	No
MIDDLE WESTERN	90	6
FAR WESTERN & MT.	21	1
SOUTHERN	23	5
EASTERN	23	..
	157	12

Many MBA members, recalling the mixed opinions in the mortgage field which greeted FHA at its inception, have no doubt wondered how wide was our group's participation in the plan today. Based upon returns from one-half of our members the status is: *only 23 per cent are not making FHA loans this year, only 5 per cent are not getting satisfactory service from local FHA offices and the loans of only 2 per cent have not worked out satisfactorily.* Hence, it is apparent that MBA members are an important factor in the FHA insured mortgage plan. This article is the second of a series based upon our recent survey. Others will follow.

How are FHA loans working out for MBA members? From the replies it would indicate that the results have been entirely satisfactory, only 2% of the replying members indicating that their FHA mortgages had not worked out satisfactorily. The members answered as follows:

	Yes	No
MIDDLE WESTERN	87	1
FAR WESTERN	15	3
SOUTHERN	24	1
EASTERN	23	..
	149	5

Of the small number who reported that they were not satisfied with the way their loans had worked out, more than half were from the Far West and Mountain states.

So it would appear from this first survey ever made among MBA members as to their FHA experience that, so far, it has been entirely satisfactory. In addition it is apparent that an important group of our members is actively engaged in FHA financing.

* * *

One of the recent news developments in connection with FHA centers about a very ambitious program for a so-called "housing census." It is thought that no project now being considered in Washington would have more direct effect on more industries than this one. This would be apparently a census in the same way that the population census is taken and would seek to determine the essential facts about housing conditions in this country. *Business Week* says the Census Bureau is willing to undertake the job if FHA can get an appropriation from Congress. The population census would be taken first (that is, the 1940 census) and a housing census later. The cost to the taxpayers would be around 12 million dollars.

* * *

Another recent FHA announcement indicates that limited-dividend rental housing projects financed with FHA mortgages show an occupancy well in excess of 90% for those projects over six months old. As of February 1st, twelve such projects had been operated more than a year, five had no vacancies and two more had only one.

* * *

Still another FHA announcement carries the estimate of Administrator McDonald that more than six million people are now living in houses modernized and repaired as result of credit insurance granted by FHA on 1,875,000 property improvement loans. He also estimates that nearly a million and a half people are now living in homes financed under the insurance plan. Another 25,000 or more people are now living in large-scale rental housing developments financed by FHA. Quarters for 50,000 more are being provided in projects now under construction.

"I DO NOT HESITATE TO RECOMMEND FARM LOANS FOR INVESTMENT"

A Member from the Agricultural Middle West Tells Why

By E. F. CRAMER

I am convinced that carefully selected farm loans are the safest investments. It appears that today's farm real estate situation indicates a desirable position for farm mortgages. This statement is made notwithstanding the sad experience some investors may have had with this form of an investment.

During the past nineteen years, the writer has had the opportunity of observing in both the Mississippi and Missouri River Valley Corn Belt Areas, as well as the wheat areas of both the United States and Southwestern Canada, various factors reflecting the soundness and unsoundness of farm mortgages.

An attempted discussion in this article will be made with reference only to the sound mortgage in the Corn Belt Area. An analysis of this type of mortgage reveals that several factors are involved, which contribute to the strength of this type of mortgage at the present time and have contributed during the troublesome, unsettled period of the past few years. I list the following items, which are considered important as affecting the soundness of the mortgage:

1. Character of the soil and subsoil,
2. Topography of the land,
3. Crop rotation plan,
4. Managerial ability in connection with the security,
5. Condition of the buildings and fences,
6. Size of the loan per acre, together with crop returns,
7. Location as to the kind of road,
8. Financial condition of the borrower,
9. Comparison of the trend of land values and farm commodity prices before the World War, during the boom period and during the depression time.

In order to have an accurate knowledge of the security offered for a farm mortgage, it is evident that an appraisal should be made by some one skilled and trained in this line of activity. It is highly important that considerable attention be given to the character of both the surface and sub-surface types of soil. During the past few years, normal or above-normal yields of crops were produced, in spite of drought or insect troubles, on soils that were limed and well supplied with humus, organic-matter content, whereas the opposite condition prevailed on soil types deficient in this respect. Soil acidity and proper drainage are other factors that should be considered under this heading. Considerable information on the above-mentioned points is available in bulletin form from the State Agricultural Colleges and the United States Department of Agriculture, which data can supplement the first-hand observation obtained.

The author—from the capitol of a rich agricultural section of the Middle West—thinks that farm loans today are good investments and explains some of his reasons why. His opinion is another to add to the growing number reflecting the same view. But making farm loans today is considerably different than it was before the drop in farm values, as the author observes. More skill and care are needed in lending. Proceed cautiously, but don't overlook this time-honored investment vehicle—the farm mortgage.

The topography, or lay of the land, is a factor that should be carefully considered. Too often in the past too much rolling land has been placed in crop that should have remained in pasture, with the result that erosion has taken place, forming gulleys and gulches, and thus ruining what, otherwise, would have been good pasture land. The total amount of land suitable for croping should be carefully considered in connection with each farm because, after all, the bulk of the loan should be based on the tillable portion of the farm. Terracing and contour farming methods are being pushed by the soil conservation people as a means of preserving tillable crop lands, and it appears to be a wise plan.

The crop rotation plan, as carried on in the locality, deserves serious consideration. It is generally conceded that some legume crop should be included in any soil improvement plan in this area. The addition of humus, the fixation of the nitrogen element, and the improvement of the physical condition of both surface and sub-surface soil are highly important. Various soils are sour and need liming to correct the acid condition existing therein. Fortunately various kinds of legume crops, such as medium red clover, mammoth clover, lespedaza and soybeans, can be grown on sour soils. Such legume crops as sweet clover and alfalfa require that the soil be limed to correct the acid condition before they can be successfully grown. It is advisable to have available the average yield of crops grown in each county for at least a ten-year period, preferably for a longer time. This information is valuable from the standpoint of comparison with crop yields actually obtained on the farm inspected. If the yield is larger than the county average, it probably means that the soil is better and that it has been handled in a more efficient manner.

A crop rotation plan is vital from an investor's standpoint as it aids in insuring a continuity of cash income over a period of years. This particularly applies to the grain type of farming, but also is applicable to the livestock type of farming.

The managerial ability of either the owner-operator, or the tenant-operator, whose farming operations are closely followed by the owner, should be given special thought when the security is being examined. It is easy to observe the cropping plan that one finds in operation, the attention given to the prevention of erosion, the condition of the fences and different buildings, and the care given the livestock and machinery. These factors all reflect upon the management problem in connection with each farm unit.

The condition of the buildings and fences on a farm should be carefully inspected. If the foundations are bulging, the sills rotting, the siding or roof in need of repairing, and the fence lines in need of new posts, new braces or new wire, all of these factors should be con-

(Continued next page)

PAST FARM LOAN MISTAKES AVOIDED TODAY

(Continued from preceding page)

sidered, and possibly the commitment for a loan, in case it is near the loaning limit, should be contingent upon these items being taken care of before all the money is paid to the borrower. Many times, considerable saving of money can be made, if these repairs are made at this particular time, and if the buildings or fences are not permitted to get in worse condition.

The amount of money that should be loaned per acre varies considerably in the Corn Belt Area, due to the variation in soil types, nearness to market points, character of managerial ability given the farm and to its sales value. It is apparent at once that, in figuring the loan value, it is a sound practice to consider the average prices and average yields of various farm products over a long period of time. The average income of a farm can be estimated over a period of years through the use of average prices and average yields. The average upkeep of buildings, fences and seed expenses, plus the taxes and insurance premiums can, likewise, be estimated in order to have some approximate idea of the amount of income that should be available for both interest and a small principal payment on the proposed mortgage.

"Too often in the past too much rolling land has been placed in crops . . . erosion has taken place . . . gulleys . . . gulches . . . ruin." Mr. Cramer's view is the view of all those who are looking at the American farm in a sane sensible manner. Errors of the past — and that means farmers' errors too—must not recur. If they do too much of our greatest national resource will be wasted needlessly. Mr. Cramer's observations on this point recalls Secretary Patterson's speech last summer in Pequot, Minn., before the Northwest Farm Real Estate Assn., on the national problem of soil erosion and its social significance.

Farm property that is located on a good hard-surfaced or gravel all-weather road is more valuable than farm property located on dirt roads that become impassable during certain times of the year. Our observations reveal that farms having equal productive value will vary as much as ten to fifteen dollars per acre when they are sold in favor of the one located on the all-weather road.

The financial condition of the borrower is a factor that should be given very close attention at the time the application for a loan is made. If the financial statement reveals considerable indebtedness, the total of which is too near the total assets, and, if it is apparent that "trouble" in the immediate future appears probable, it is better to be frank with the applicant and let some one else make the loan, rather than encouraging him by making the appraisal and then later turning down the application. Too many limit loans of this type have been made and have proven embarrassing, although no loss may have resulted due to the high-grade character of the security.

It is a well-known fact that there was a gradual increase in land values and a slow increase in farm commodity prices during the first part of the present century up to the beginning of the World War period. This was followed by a rapid rise in both land values and farm commodity prices during the so-called "boom" period, which culminated in the fall of 1920. This in turn was followed by the beginning of the "depression" during which both land values and farm commodity prices shrank very abruptly. It was very acute in Iowa commencing in the spring of 1921, and, later on it become very pronounced in Illinois and adjoining states.

Many farm mortgages were made during the "boom" period wherein it is apparent that, in the appraisal, too much attention was given to the sales market value and the abnormal high prices of farm commodities. It is evident that not enough consideration was given to the previous history of normal land values prior to the World War, to the average production yields, to the average prices of farm products over a period of years, and to the amount loaned, based only upon the tillable portion of the security. All of these factors aid in bringing about a "distressed" mortgage situation.

This distressed mortgage situation is being avoided by those in charge of making mortgage loans and is due largely to a more thorough understanding of the problems involved. I believe the experiences of most loaning agencies reveal that practically no losses occurred on mortgages which were made on the level prairie lands, even though they were full. I, likewise, believe that mortgage loans made on the second-class farms proved satisfactory where the amount loaned was only one-third of the normal value of the land. More trouble, however, has been encountered with full loans made on the second-class farms.

I stated at the beginning of this article that I am convinced that carefully selected farm loans are the best of investments. I have attempted in this discussion to point out in detail their value and, at the same time, point out precautions to be taken. Subject to the above discussion, I do not hesitate to recommend them.

LOWER FHA RATE

Leading life companies have not, at this writing, indicated what course they will follow as a result of the reduction in FHA interest rates by a large savings bank in New York to 4¼ per cent from 5 per cent. The decision is eagerly awaited, says the *Wall Street Journal*, "because of the possible influence it may have on rates throughout the country." The paper continues: "It is pointed out that yields on loans made at 4¼ per cent would be under 4 per cent when allowance was made for service charges. In addition, buyers of these mortgages have been paying premiums for them which also reduce the yield."

FHA business, incidentally, continues to hold up well. Applications for insurance on small homes for the week ended March 4 were $26,263,496, an all-time high record. Previous high record was $24,504,214 for week ended October 21, 1938. Since the first of January small home mortgage insurance applications aggregated $163,807,405 as against $72,516,837 in the same period last year.

February applications amounted to $86,213,375 as against $77,594,030 in January, and only $42,612,638 in February of 1938.

SEND YOUR LISTING IN IMMEDIATELY

Every MBA member has received a blank which he has been asked to fill out in detail showing essential information about his business. This information will comprise the material about his firm which will appear in MBA's first complete directory. If you haven't filled it out and mailed it to the headquarters office *do so immediately*. About half of the members have already done so and we are trying to arrange publication for about June 1st. Listing in this Directory will prove a valuable asset for members.

IS THE GOVERNMENT OVERBUILDING?

St. Louis Is Wondering—and An MBA Member Who Heads a Really Low-Cost Project Presents His View

Recently a group of Huntington residents "who are not opposed to slum clearance that actually clears slums and houses slum dwellers" inserted a half page advertisement in the *Huntington Herald-Advertiser bristling* with such comments as these:

"Millions of Dollars! To be spent for what? Slum clearance, you are told one time. Low cost housing is the answer given when you request that details be given about any proposed 'slum clearance' plans. When Huntington proposed to build much-needed new schools every detail of the program — sites — costs — need — materials, etc. — was brought out into the light and freely discussed so that all might be informed.

"You have the right to demand the facts about the need for 500 additional dwelling units. (Competent Surveys do not indicate such need.)

"(Our City's less fortunate residents will be barred as tenants according to provisions of the Housing Act. Only those who have a steady income and a good credit rating will be admitted. The families who need help, such as the unemployed, those on relief and WPA, will not get it. WHO WILL BE BENEFITED? You and your neighbor who will pay the bill have a right to know.)

"(DID YOU KNOW THAT—A few individuals will say WHO can occupy these dwellings?—That the taxpayers must pay for 60 years, at the rate of $18 per month per unit, approximately $9,000 a month or $108,000 a year, to subsidize the renters and also pay for all of the municipal services for these 500 favored families, including schools, garbage collection, police and fire protection, etc.—Yet with the taxpayers paying $18.00 per month per unit the tenants must pay in addition as rent a minimum of approximately $4 per month per room! IS THIS LOW COST HOUSING?—That the act permits the Authority to buy 'ranges, kitchen equipment, refrigerators, laundry equipment, lighting fixtures, window shades and other furnishings and equipment' for these 500 favored families WHO WILL NOT BE THE CITY'S 500 MOST DESERVING FAMILIES! Other citizens, both home owners and renters, must pay for these things if they are to enjoy them.)

"YOU HAVE THE RIGHT TO DEMAND THE FACTS ABOUT HOW YOUR CITY GOVERNMENT IS GOING TO PAY FOR CLEARING 500 'SLUM' DWELLINGS.

"(Such a huge expenditure would seriously disrupt the city's finances. Where is the money supposed to come from? If 500 'Slum' Dwellings are not to be razed, then IT IS NOT A 'SLUM CLEARANCE' PROGRAM!)

This article, and the one that preceded it, is based upon the suggestion that the government, in some of its building activities, may be sponsoring construction where none is actually needed. In the last issue was detailed the opposition of building managers and others to the new census building in Washington—many declaring that with 18 per cent of the office space in the country vacant, no additional is needed. A somewhat similar instance was noted in a USHA slum clearance project in Huntington, West Virginia. This article concludes that discussion and describes another related one in St. Louis—with some comments by an MBA member whose experience in low-cost housing is entirely unique.

In Huntington there has been apparently a sincere effort made to get all the facts as to just why such a project is needed. It is said that one very careful and accurate survey was made and revealed 465 vacant units of various values and condition. Following that a checking survey was made to insure absolute accuracy and this second survey revealed that actually there were 100 more vacant units than originally accounted for.

In other words, it would appear that there are about 600 vacant units in the city while the USHA plans to build 500 more. Huntington has been building about 200 units a year for the past 2½ years, indicating apparently, that private interests are meeting the demands in the city at the present time.

The third situation called to the attention of *The Mortgage Banker* in which private interests are opposing further new construction financed (or, the loans insured by) the government is in St. Louis. Here various groups are opposing a large-scale development located in St. Louis County which will have 600 units costing $3,400,000. Among others, the Mortgage Bankers Association of St. Louis is protesting against FHA making a loan on this project. President Martin L. Rust wrote Stewart McDonald that there is "absolutely no need whatsoever for new apartments in this area, and particularly no need for so many units in one location thrown on the rental market at one time."

Manhassett Village (a previous project) offers some evidence of the apartment house vacancy situation here, Rust said. He added that it had fewer than 50 of its 354 units rented.

"It is a known fact that prospective tenants during October and November were offered free rent until January 1," Rust wrote, "which leads one to believe some of the 48 families now in Manhassett became tenants because of the generous concession offered."

He said vacancies in the newest apartment section have increased from three to between 15 and 20 per cent in the last year. "Loading the market with hundreds of new apartments when there is obviously no need for so many additional units," Rust wrote, "adversely affects existing buildings, causing more vacancies and lowering of rents." He said rentals in the St. Louis area, already forced down by erection of so many new homes and numerous apartments, would be further demoralized by erection of the proposed 600-unit project.

"We respectfully urge you to refrain from issuing mortgage insurance on the said project, and that you give no consideration to other similar large rental projects in this area."

The Housing Committee of the St. Louis Real Estate Exchange voted nine to one against pending legislation in Missouri to create housing authorities.

The Exchange declared slum clearance and low-cost, low-rent projects so far had failed to prove themselves as such, stating actual building cost, exclusive of ground, has ranged from $1478 a room in Omaha to $2283 a room in New York.

In Toledo a project known as the Charles F. Weiler Homes, a USHA development, will provide 800 units and, one authority said, will compete with every privately-owned home in Toledo with a rent value of less than $35.00.

(Continued Page 8, Column 1)

The MORTGAGE BANKER

PUBLISHED SEMI-MONTHLY BY THE

MORTGAGE BANKERS ASSOCIATION OF AMERICA

111 West Washington Street, Chicago

S. M. WATERS, *President* — FRANK C. WAPLES, *Vice-President* — GEORGE H. PATTERSON, *Secretary-Treasurer*

THE MORTGAGE BANKER is distributed free twice a month to members of the Mortgage Bankers Association of America. The publication is not available at newsstands or book stores. THE MORTGAGE BANKER will be glad to consider manuscripts designed for publication but will assume no responsibility for returning them. Opinions expressed in the publication are those of the authors or the persons quoted and are not necessarily the views of the Association.

GEORGE H. PATTERSON, *Editor*

MARCH 15, 1939

MORTGAGE LAW REFORM

Many states need more modern mortgage and foreclosure laws. Last year there was considerable agitation for changes along this line but lately it seems to have slowed down. One of the leading advocates of mortgage law reform was general counsel of the federal home loan bank board and, in this capacity, gave the movement much publicity. Since then he has resigned and apparently is no longer very active in the movement. An organization, whose primary purpose is to secure general uniform state laws, prepared a model mortgage law but exactly what has been accomplished as a result of it is somewhat obscure.

Illinois has been cited as one of the worst states from this standpoint, and in the past few days has made a start to correct it. A Chicago Bar Association committee has been working for the past four years on a new law and has finally come forth with one which no doubt will receive considerable attention. We do not pretend to know whether it is a good law or not; but it occurs to us that many MBA members, living in states that obviously need mortgage law reform, may wish to review it. It may possibly furnish the basis for similar reform in their own states. If so, please ask your headquarters office for a copy of this measure and any other information you may wish.

When you start out to reform mortgage and foreclosure legislation what do you hope to attain?

In Illinois, these features of the new proposed law answer that question in a general way:

1. It provides that the home owner may remain in occupancy of his home until foreclosure sale without paying rent.

2. It gives the farmer the right to cultivate and gather crops for a year after the issuance of a sheriff's deed under foreclosure.

3. It protects mortgagors against excessive deficiency decrees and eliminates the necessity for entering a deficiency merely to support a receivership.

4. It eliminates the necessity for reference to masters in chancery in most cases.

5. It requires that all foreclosure sales be made by the sheriff and reduces the fees for such sales.

6. It provides for settlement between mortgagor and mortgagee by the entry of consent decrees which cannot be blocked by junior lienholders, yet at the same time protecting their rights.

7. It contains numerous provisions which will expedite and reduce the cost of foreclosure and liquidation of real estate bond issues and safeguard the bondholders. The activities of the trustee and the bondholders' committee are placed under the direct supervision of the court. They become active trustees for the bondholders.

In regard to the reduction of the redemption period to six months the committee pointed out that 20 states have no redemption period at all.

The proposed reduction will benefit borrowers in the long run by making money available for loans on easier terms, the committee believes.

Mortgage and foreclosure laws are woefully out of date in many states, and it is to the advantage of lender and investor alike to get them corrected. As one member of the drafting committee in Illinois said: "It is to be expected that any procedure with as long a history as mortgage foreclosure is bound to be fettered by forms and ceremonies that have since been outmoded and that do not fulfill their functions in accordance with present-day ideas."

Modern mortgage and foreclosure laws ought to emerge from the discussional stage into the field of actuality before the next great period of building activity begins. And that means now.

MBA GOVERNOR

BYRON V. KANALEY

Byron V. Kanaley, president of Cooper, Kanaley and Co. of Chicago, is the newest member of MBA's Board of Governors, having been elected at the February meeting for a term expiring in 1940. He succeeds to the vacancy created by the resignation of Arthur M. Hurd of New York City.

Mr. Kanaley is also chairman of MBA's membership committee this year and was head of the entertainment committee at the 1938 Convention in Chicago. Mr. Kanaley heads one of Chicago's largest mortgage banking organizations. He is active in the affairs of the Chicago Mortgage Bankers Association, having been one of the organizers and its first president. He is a graduate of the University of Notre Dame, class of 1904 and the Harvard Law School, class of 1907. He is now chairman of the Board of the lay trustees of the University of Notre Dame.

Mr. Kanaley, incidentally, is a member of the Committee just organized by the CMBA "to make a detailed survey of methods used by member firms as well as outside mortgage companies in obtaining new business." This survey is being conducted with the intention of placing the mortgage business in Chicago on the highest ethical plane. The committee is headed by George W. Springer and also includes Bester P. Price, Hugh Riddle, and Earl G. Krumrine. The activity is a unique one among local MBA organizations and holds the possibility of accomplishing much good.

QUESTIONS SLUM CLEARANCE PLANS

(Continued from Page 6)

The instances detailed here are all current topics of discussion in their respective communities. They are mentioned here with no thought of disparaging the work of the government agencies involved, but merely to raise a general question which has been raised by groups in these communities: namely, is it economically sound for the federal government to build, or sponsor the building of, new housing in communities when it will mean lower property values for livable existing housing? And, further, is it sound economics to build new construction when existing construction can and does answer the present day need?

Apropos of the Huntington discussion William B. F. Hall, chairman of MBA's Insurance Advisory Committee, head of the mortgage loan department of Lincoln National Life Insurance Company and chairman of the Fort Wayne Housing Authority declares that "So-called low-cost housing by the federal government that so far has not rehoused one slum dweller is further aggravating the already overcrowded conditions of other slums."

Slum Dwellers on the March

He pointed out that slum dwellers who had been paying $10 a month for their houses are forced to move out when the federal subsidized housing program puts up projects to rent for $30 a month to the middle classes and they have no place to go but to crowd in with their relatives in what is left of low-cost existing shelter.

"On our statute books now are all the statutes that ever would be needed to condemn and demolish the unsanitary houses existing today," said Mr. Hall. "But fire marshalls and building commissioners are utterly helpless because there is no place for the slum dwellers to go. We business men and financiers ought to be ashamed that we haven't done anything to develop a housing program which is truly low-cost and slum- clearing. We have let the social theorists and the organized pressure groups of the building trades put through this unbusinesslike legislation. Business men are needed to attack the real problem."

He described how Fort Wayne had built actual low-cost houses to replace shacks at a cost of $1300 for land, material, labor and overhead combined and such housing was financed by private capital.

He said that it is imperative to find ways of reducing building costs in order to achieve slum clearance and low-cost housing instead of subsidizing the "criminally wasteful economics of our present building industry."

Business Stimulant

"When we find ways of doing low-cost housing with privte building on a business basis we will provide the greatest stimulus to business which has been accomplished since the Industrial Revolution.

"Let's confine ourselves to the bottom classes in our low-cost housing and provide 20 bathless families with showers instead of giving one a sunken porcelain tub. In Fort Wayne I can show you 50 new and identical houses replacing shacks. They have no basements, gables, dormers or bays, but have concrete floors, flat roofs, exposed conduit wiring and pipes and rent for $2.50 a week. The housing is demountable so that it is possible to remove it from the lot whenever the owner of the land can find a more productive use for the land. Meanwhile, because we are using land that is currently non-productive we can get it for $1.00. We must get rid of the idea that 'the best in housing is none too good for the free born American.' We must keep our feet on the ground."

Mr. Hall said that federal subsidized projects so far have cost $5,500 for each family housed and that less than 20% of the people in the country could afford that kind of housing.

"There is something wrong in the idea that 20% of us can subsidize 80% up to these millenium levels."

E. F. Cramer, who analyzes farm loans in this issue and tells you why he thinks they are good investments today, is a native of Iowa. He attended the University of Nebraska, the Iowa State College and took an M. S. degree in Agriculture at Cornell University. His past business career includes positions as agricultural superintendent for two large sugar companies and in 1931 became farm examiner for Leavitt & Johnson Trust Company in Waterloo. Later he held a similar position with the Lincoln Joint Stock Land Bank and from 1928 to 1929 was chief mortgage loan examiner for the Federal Farm Loan Board in Washington. In 1930 he became manager of the Real Estate Loan Department of the First Galesburg National Bank and Trust Company at Galesburg, Illinois a position he now holds. Members who read *Burrough's Clearing House* magazine may recall seeing his picture in connection with an article last month by an associate on city real estate.

HOUSES TOO HIGH?

(Continued from Page 2)

chances of finding a job. In the independent small communities which are not suburban areas of larger cities, a change in work would be more likely to compel a wage earner to move to another community. The National Resources Committee points out that the study of consumer incomes did not include suburban villages or cities in the sample. As a result, the income figures for wage-earning families in rural nonfarm communities and in small cities are possibly somewhat lower than they should be, since many of the wage-earning families classified as residents of the smaller cities and rural communities are actually residents of suburban areas, where incomes are higher and the tendency to home ownership is strongest.

Later reports by the Committee will show what goods and services American families actually purchased with their share of the national income. The basic pattern of family expenditures for housing and home maintenance will be traced. The present study of consumer incomes, however, makes it very clear that the housing problem can logically have only two solutions. The type of housing which is being produced in quantity today is within the financial reach of only one-third of our families. The incomes of two families out of every three must be substantially increased if they are to purchase homes at these cost levels. Until consumer incomes are raised, therefore, the only means of tapping the market which does exist for homes in this country today is to produce a satisfactory house at costs far lower than those prevailing at the present time.

And this thought is further echoed by L. Seth Schnitman, well known authority on building, in *Barron's*:

"More than a good five-cent cigar, this country needs a better dwelling unit at a price to fit the purse of the great mass of our people. The satisfaction of this great need could busy the nation for years and do more to dispel the unemployment of both men and money than any pursuit of a mythical golden calf. Though a relatively large number of forces impel home building activity, only four usually account for year-to-year changes in volume. In order of importance, these are *the state of the national income, the rent level, the level of building costs and population increases.*"

(Mr. Schnitman's complete article is being featured as the MBA Article-of-the-Month for March.)